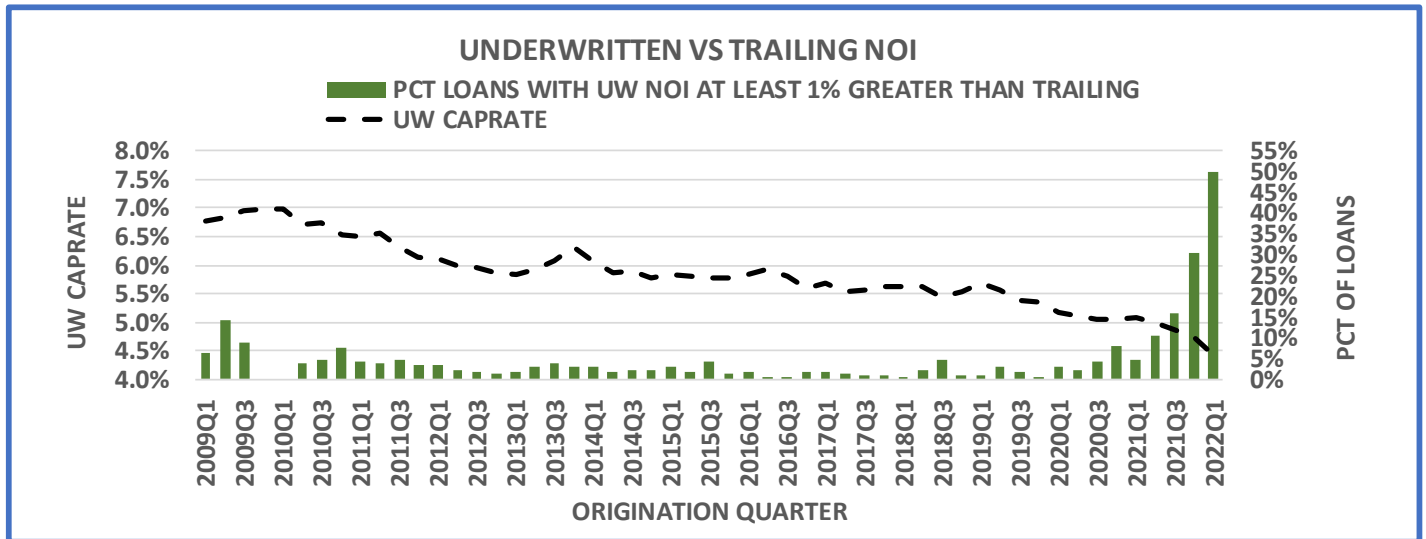


Underwritten NOI and Levered Return Projections

June 13, 2022

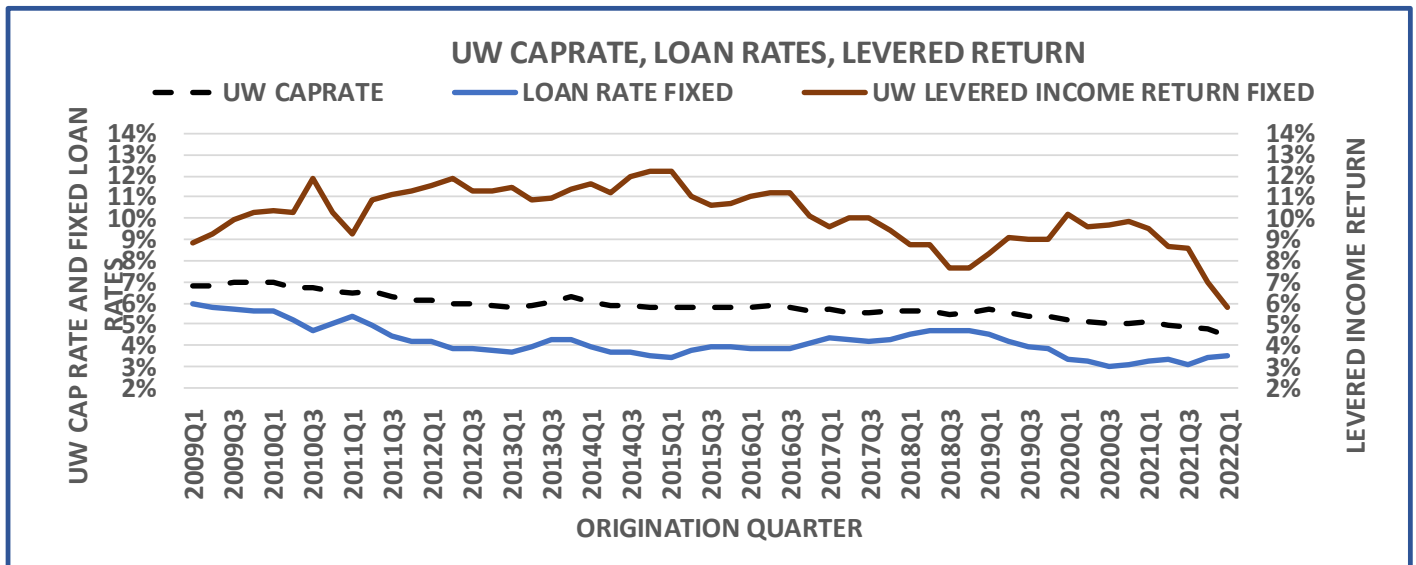
In this article we use data from recent Agency CMBS Origination to highlight the current state of Multifamily Underwriting and Return Projections. Charts 1 and 2 below show striking changes in Agency Loan Underwriting over the last year and accelerating in Q1 2022.

CHART 1: UNDERWRITTEN VS TRAILING NOI



Source: Multifamily Comps LLC

CHART 2: UW CAPRATE, LOAN RATES, AND LEVERED RETURN



Source: Multifamily Comps LLC

To create these Charts, we extracted the following data fields for each loan and property from CMBS Offering Circulars going back to 2009: 1) Loan Interest Rate; 2) Appraised Value (used to calculate the Loan-To-Value Ratio); 3) Underwritten Revenue and Expenses (used to calculate Debt Service Coverage Ratios); 4) Trailing Revenue and Expenses.

Using this data, we define the Underwritten (UW) CAP Rate as the ratio of Underwritten (UW) NOI divided by Appraised Value. The UW CAP Rate differs from the Trailing CAP Rate to the extent that Underwritten NOI is greater or less than Trailing NOI. For an Appraiser or Underwriter using the Income Capitalization Method to value a stabilized property, UW NOI represents a stabilized pro-forma assumption for the following year. Chart 1 above shows the percentage of Properties for which UW NOI is at least 1% higher than Trailing NOI. One can see the striking increase of incidents in which Underwriters are increasing at the same time UW CAP Rates calculated at the same increased proforma NOI assumption is declining.

Chart 2 shows the narrowing spread between UW CAP Rates and Loan Rates. The Levered Income Return is calculated assuming the Median LTV for Fixed Rate Loans. The combination of low absolute UW CAP Rates and the narrowing spread versus Loan Rates has reduced the Levered Income Returns to historically low levels. It's truly a changed investment environment.

Multifamily Comps LLC (MFC): The MFC Database is comprised of 45,000+ Lender Underwritten Financials and Appraised Values, and 150,000+ serialized Operating Statements extracted from Multifamily CMBS Offering Circulars and Trustee Reports. The primary database concentration is Garden style apartments serving middle income households. The database also includes significant groupings of Mid-Rise, High-Rise, Senior, Healthcare, Student, and Manufactured Housing. The Multifamily Comps (MFC) Statistical Valuation (STATVAL™) Application provides an automated and cost-effective method to perform a Benchmark Underwriting using the Income Capitalization Method in a manner that statistically matches underwriting assumptions on recent Loan Originations. Once a Subject Property has been entered into STATVAL™, a Benchmark Underwriting may be executed in as little as 5-10 minutes and cost as little as \$200-\$300 per Property for Clients who take advantage of volume pricing discounts.

For further information, demos, and/or to set up a STATVAL™ User Account please contact our sales representatives:

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